



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., July 22, 2003. The following members were present:

Jody B. Olson
Susan K. Simmons
Dennis L. Johnson

Trustee J. Kirk Sullivan was absent and excused. Trustee Ahrens joined the meeting at 8:35 a.m. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon
Bill Palumbo
Drew Black
Jing Wang
Dennis Fitzpatrick
Charlie Brown
Matt Haertzen
Doug Bates
Tim Dunn
Jim Shakelford
Ward Ballard
Cecile McMonigle
Gay Lynn Bath

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
REAI
Endowment Fund Investment Board
Clearwater Advisors
Clearwater Advisors
IEA
Clearwater Research
PERSI
PERSI

Richelle Sugiyama
John R. Doner
Judy Aitken

PERSI
PERSI
PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the minutes of the April 22, 2003, regular meeting of the Retirement Board after correcting the adjournment motion to note it was made by Trustee Simmons.

Monthly Portfolio Update Mr. Maynard discussed his investment reports dated July 20, 2003 and the year-end report dated June 30, 2003. In the report and in his discussion, Mr. Maynard noted the following:

The fiscal year ended with the fund up 3.7% for the year, the first positive result in the past three. The fund is still down 9.5% since July 1, 2000, when the bear market generally began.

Nonetheless, there is some hope that the bottom of the market has passed, and that moderate gains may occur over the upcoming year. Mr. Maynard discussed the effect of the war and improvement of earnings reports by companies. The economy remains soft with employment lagging.

The TIPs account and Zesiger public portfolio have the best absolute performance, while international and small cap equities have the worst. Zesiger and Idaho Mortgages have the best relative performance for the fiscal year to date, while Schrodgers, Scudder, and Mountain Pacific have the worst. However, Mountain Pacific is on line with what is expected for their type of investing.

The portfolio as a whole has, contrary to expectations, generally kept pace with the recent market turnaround, rather than lagging as Mr. Maynard expected. It remains to be seen if this good relative and absolute performance will continue.

From the fiscal-year-end close report, Mr. Maynard reviewed the five-year returns and individual manager performance. He has some concern about MFS and Schrodgers. Chairman Olson visited Schrodgers recently. We will continue to closely monitor them.

The recent market volatility has been a great stress test for the fund. Mr. Maynard anticipates few changes to PERSI's investment policies, allocation

and managers as the structure held up well under difficult conditions. Our members, employers and legislators are well educated about the market effects and continue to be supportive of PERSI. Mr. Maynard said many peer systems, both public and corporate, are experiencing great difficulties because of recent market losses.

Total returns for the fiscal year end were reported as 3.7% with a total fund value of \$6,547,170,155. For the new fiscal year, the figures as of July 20, 2003 were \$6,616,746,953 with a year-to-date return percentage of 0.9%. Fixed income investments have provided stunning results relative to the market and our peers, nearly all due to TIPS and Idaho Mortgage Portfolio out performance. While the motivation behind our TIPS investments was for diversification purposes, it provided a 12.3% return for the one-year time period.

A private equity report is planned for the August meeting. On July 30 the investment committee will meet to review potential private real estate and private equity investments. Our outside legal consultant, Rafael Stone, is also expected to attend.

Answering a question from the Chair, Executive Director Alan Winkle said the fiscal year end funding status is estimated at around 20 years amortization. This does not factor in the liability numbers, but runs the asset numbers in a model program. Data is being provided to our actuary and a preliminary report is expected at the September Board meeting.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Dennis Fitzpatrick introduced their summer intern, Jing Wang. She is studying at Wharton. Her family has been in the USA for about 12 years. Other managers discussed their view of the economy, agreeing that it remains soft with no job market strength.

FISCAL:

Update and Expense Reports: Financial Officer James Monroe had previously provided a memorandum dated July 14, 2003 to the Trustees which summarized current fiscal items of interest. A chart showing the fiscal year-end appropriation status was also provided. The chart showed personnel cost savings resulting from vacancies and a freeze on salary increases. Operating savings were the result of reduction or elimination of the IVR system, travel, training, consulting and printing costs. We also delayed remote site testing. Delaying replacement of PC's and servers resulted in capital savings. The Portfolio appropriation is purposely

budgeted high to ensure adequate funds to handle any unexpected expenses during the year.

The annual audit is in progress. Responding to a question from the Chair, Mr. Monroe said audit fees are about 50% higher than in previous years mainly due to the liability issue.

Mr. Monroe reviewed the Out-of-State Travel report, the Administrative Budget report and the Portfolio Budget report in detail. Trustee Simmons asked how much we saved by not using a third-party vendor to establish a disaster recovery remote site. Mr. Monroe said we had budgeted \$36,000 ongoing and when the RFP bid was nearly \$60,000 a year we changed plans and are setting this up ourselves. Testing of the site has not yet been completed. The format of the Portfolio Budget Report is slightly different, providing both budgeted and actual summary columns. We ended the fiscal year with expenses below our target of 50 basis points.

LEGAL

Parrish Disability: Mr. Goodsell had previously provided a memorandum and background material to the Trustees in the matter of the disability retirement application of Dean Parrish Case # CC-02-06 – Final Order. Trustee Johnson clarified with Mr. Goodsell that all the evidence must be submitted at time of application. The process has been followed and the hearing officer has recommended denial of the application. In the event Mr. Parrish wishes to submit further information for consideration, he may re-apply and VPA will reprocess. Mr. Winkle noted that applicants must pay the costs of a second application. Trustee Ahrens asked if Mr. Parrish has followed through with a Social Security Disability application; Mr. Goodsell said there is nothing to prevent him from doing so, but he is not sure if this has occurred. By motion duly made by Trustee Johnson, seconded by Trustee Ahrens and unanimously approved, the Board denied the appeal of Mr. Parrish and directed staff to issue the Final Decision and Order on this matter.

Legislative Ideas: Mr. Goodsell discussed five ideas for legislation most of which are technical. After approval by the Governor's office, the Board reviews proposals in detail before they are submitted to the legislature.

EXECUTIVE DIRECTOR

BPR Feasibility Study: Mr. Winkle had previously provided a memorandum to the Board dated July 15, 2003. Maximus has been awarded the contract for the Business Process Review (BPR). Ray Smith will attend the August meeting of the Board and present an overview of the

project. After his feasibility study report in September, the Board will make a decision as to whether to proceed or not with the project. Mr. Winkle discussed project funding, saying we were unable to encumber funds to cover the project costs. This will be part of the budget decision in September if the Board decides to proceed with the project. As part of the budget request, it will provide an opportunity for legislators to clearly understand the changes recommended which may include imaging. Trustee Simmons asked if the feasibility study would address return on investment. Mr. Winkle said it would. Chairman Olson asked if Trustees could meet individually with Maximus to ensure understanding of any recommendations. Mr. Winkle said meetings can be arranged so Trustees understand details of the project. Trustee Johnson said PERSI is at the "end of the curve" in the area of imaging. Private financial institutions have been using it for some time and he can't imagine PERSI going forward and not having it much longer.

Consultant Search: Director Winkle had provided a memo to the Board addressing the approach staff plans to take to choose a consultant firm to replace R.V. Kunz. Trustees Sullivan and Simmons will serve on the committee. Staff will develop a questionnaire which will be sent to recommended firms. The Chairman said he does not necessarily favor large firms. There are advantages to having a local representative. The sub-committee will review written proposals and bring 1-3 candidates to the full Board for final selection. Trustee Ahrens said she would like to find someone who understands Idaho and who is sensitive to Idaho values. Chairman Olson thanked Trustees Simmons and Sullivan for agreeing to serve on this committee.

Status Update: Mr. Winkle reviewed the summary of PERSI projects report that had previously been provided to the Board. He said the new Direct Inward Dial lines would provide individual numbers for staff beginning July 23. The new numbers were provided to the Trustees.

We have two new employer units – both charter schools that are mandated into the system by Idaho Code. White Pine Charter School in Idaho Falls and Meridian Medical Arts Charter School in Meridian have received charters.

Employer Survey Result – Ward Ballard of Clearwater Research presented the results of a recent survey of PERSI employers. The survey showed a high-level of satisfaction with PERSI services and information. The survey of PERSI employee members is underway. Transaction surveys will also be conducted to help us improve our processes and service going forward.

Other Business: Chairman Olson referenced a letter from the Governor appointing Trustee Ahrens to a second five-year term on the Board. The Chairman thanked her for agreeing to serve.

Charlie Brown, retiree representing the Retired Teachers Association, said he was glad to see the fiscal year end with positive returns.

Future Board Meetings

Tuesday, August 26, 2003, 8:30 a.m., Boise – PERSI
Tuesday, September 30, 2003, 8:30 a.m., Boise – PERSI
Tuesday, October 21, 2003, 8:30 a.m., Boise – PERSI
Tuesday, November 18, 2003, 8:30 a.m., Boise – PERSI
Tuesday, December 16 2003, 8:30 a.m., Boise – PERSI

Adjournment: There being no further business before the Board, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 10:35 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director